

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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COMMISSION

In the Matter of:

THE APPLICATION OF EAST KENTUCKY UTILITIES,)
INC. FOR APPROVAL OF LONG-TERM FINANCING)
THROUGH THE KENTUCKY INFRASTRUCTURE)
AUTHORITY FOR THE PURPOSE OF BECOMING) CASE NO.
CURRENT WITH VARIOUS CREDITORS, INCLUDING) 2004-00276
ITS WHOLESALE NATURAL GAS SUPPLIER,)
EQUITABLE ENERGY, LLC)

APPLICATION

Pursuant to KRS 278.300, East Kentucky Utilities, Inc. ("East Kentucky") respectfully submits this application for approval of long-term financing through the Commonwealth of Kentucky Infrastructure Authority ("KIA") in the amount of \$245,891.00. The proceeds will be used to pay amounts owed to various creditors, the most significant amount being \$148,323.00 owed to Equitable Energy, LLC. East Kentucky submits this original and 10 copies of the application with this filing.

1. East Kentucky is a natural gas distribution company operating in Floyd County, Kentucky, providing natural gas service to approximately 1,080 customers.
2. East Kentucky's post office address is Box 408, Prestonsburg, Kentucky 41653.
3. A certified copy of East Kentucky's Articles of Incorporation was filed with the Commission in Case No. 1998-00280.

APPENDIX A

Commitment Letter from Department of Local Government

4. As of January 1, 2004, East Kentucky had 34 miles of distribution line in Floyd County and owns additional facilities necessary to support its distribution system. The book value of East Kentucky's utility plant and its long- and short-term assets as of January 1, 2004 was \$671,890. Its long-term debt as of January 1, 2004 was \$617,079. It had accounts and notes payable as of January 1, 2004 in the amount of \$308,438.

5. East Kentucky seeks to obtain long-term financing through the Kentucky Infrastructure Authority Board's financing program in the amount of \$245,891.00 in order to become current on its obligations to its wholesale natural gas supplier and other creditors. The financing from KIA will be for a term of 30 years and bear a fixed interest rate to be determined by KIA. KIA will have, as security for the loan, a lien on all of East Kentucky's assets and future earnings. A copy of the KIA loan commitment letter is included as Attachment A to this application.

6. A schedule of the amounts owed its creditors, supporting invoices, and a narrative description of the circumstances that caused East Kentucky to fall behind in meeting its obligations to the point that it makes this request for approval of financing to become current on its obligations is included as Attachment B to this application.

7. East Kentucky is not seeking authorization to issue any kind of stock as part of this application. East Kentucky has no trust deeds or mortgages.

8. East Kentucky proposes to use as its financial exhibit, required by 807 KAR 5:001, Section 11(2)(a), its 2003 annual report filed with the Commission. Due to its size, the fact that it prepares financial statements only once a year, and the cost associated with preparing additional financial statements, East Kentucky requests a

deviation from the requirement that the financial exhibit cover a period ended not more than 90 days prior to filing its application.

9. As no property is being acquired in conjunction with this financing, 807 KAR 5:001, Section 11(2)(c) is not applicable.

WHEREFORE, East Kentucky requests that the Commission issue an Order that: (1) grants a deviation from the requirement of 807 KAR 5:001, Section 11(2)(a) that a financial exhibit cover a period ended not more than 90 days prior to the filing of this application and (2) authorizes its requested financing of \$ 245,891.00 through a long-term loan from the Kentucky Infrastructure Authority Board, as described herein, and (3) for any other relief to which it may be entitled.

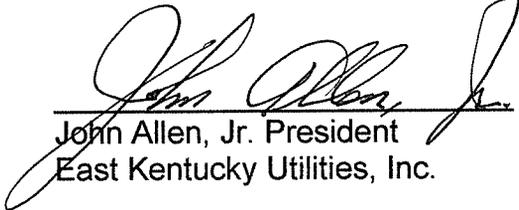
DATED at Prestonsburg, Kentucky, this 30th day of September , 2004.

COMMONWEALTH OF KENTUCKY

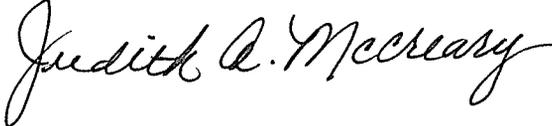
COUNTY OF FLOYD

John Allen, Jr. after first being duly sworn, deposes and says: That he is the President of East Kentucky Utilities, Inc., a gas distribution company; that he is duly designated by the Applicant to sign this Application; that he has read the foregoing Application and knows the contents thereof; and that the same is true of his own knowledge, except as to such matters as are therein stated on information or belief, and as to those matters he believes it to be true.

The 30th day of September, 2004.


John Allen, Jr. President
East Kentucky Utilities, Inc.

Subscribed and sworn to before me by John Allen, Jr. this 30th day of
September, 2004.



NOTARY PUBLIC, KY STATE AT LARGE

My commission expires: June 7, 2006

APPENDIX B

Amounts Owed, Invoices and Explanation for Current Financial Condition

AMOUNTS OWED

Equitable Energy LLC	\$148,323
Bank One (Fuel for Vehicles)	2,636
Toyota Financial Services	20,932
Tax Consulting, Inc.	54,000
Floyd County Fiscal Court	<u>20,000</u>
Total	\$245,891

EXPLANATION OF FINANCIAL CONDITION

East Kentucky's financial problems began in the spring of 2003, when 3 floods were experienced. The expense of repairs after the floods put a strain on the company's already tight financial condition. On top of the expense of these repairs, it was at this time that the company was notified by Equitable Energy LLC, its wholesale gas supplier, that East Kentucky had been under-billed for its gas purchases over a ten-month period in 2002, in the amount of \$124,289. Equitable established a payment schedule over which East Kentucky was to pay this off by November of 2004. To date, \$41,800 has been paid, with \$82,489 still outstanding. It is unlikely that East Kentucky will be able to pay any significant amount on this balance under its present financial condition.

East Kentucky has made its required bond and loan payments over the past 12 months, but in so doing, has become delinquent in paying Equitable and other creditors. It is unlikely that East Kentucky will be able to make its full bond and loan payments (a total of roughly \$81,000) in the next few months without further delaying payments to various creditors.

In addition to being behind on the payment schedule for the under-billing by Equitable, East Kentucky presently owes \$65,834 on its regular monthly wholesale gas billings from Equitable for April, May, June and July of 2004. East Kentucky is also delinquent on paying for fuel for its vehicles of - \$2,636, Toyota Financial Services for balance owed on its vehicles - \$20,932, Floyd County Fiscal Court \$20,000 for loan to pay on Bonds due March 2004 and \$ 54,000.00 for wages (Management fees), It has amounts due in the near future for bond interest - \$9,800, and for liability insurance, they are still attempting to secure, that it cannot make under its existing circumstances.

East Kentucky's liability insurance expense has gone from \$4,000 to \$10,000 annually and employee health insurance costs for the company have increased by over \$10,000 annually over the past two years.

In an effort to reduce discretionary expenses, East Kentucky's president has opted to reduce his salary to \$500.00 per month commencing July 2004. East Kentucky also laid-off an employee at the end of 2003 who had over 20 years of experience with the company.

As the income statement contained in its 2003 annual report shows, East Kentucky incurred a net loss for calendar year 2003 of \$123,519 on revenues of \$857,080.

East Kentucky Utilities
P. O. Box 408
Prestonsburg, KY 41653

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P.O. BOX 615
FRANKFORT, KENTUCKY 40602

ATTN: JEFF SHAW